LEGISLATIVE DIGEST
HOUSE REPUBLICAN CONFERENCE | CHAIRMAN ADAM PUTNAM
1420 LONGWORTH HOB, WASHINGTON, DC 20515 www.GOP.gov PHONE 202.225.5107 FAX 202.226.0154

H.R. 6515 – Drill Responsibly in Leased Lands Act of 2008

FLOOR SITUATION

H.R. 6515 is being considered on the floor under suspension of the rules and will require a two-thirds majority vote for passage. This legislation was introduced by Representative Nick Rahall (D-WV) on July 16, 2008. The bill was referred to the House Committees on Natural Resources, and additionally to the Foreign Affairs Committee and to Transportation and Infrastructure. H.R. 6515 was never considered by any of the Committees of jurisdiction.

H.R. 6515 is expected to be considered on the floor of the House on July 17, 2008.

SUMMARY

Lease Sales in the National Petroleum Reserve: The bill directs the Secretary of Transportation to expedite environmentally responsible oil and gas leases in the National Petroleum Reserve in Alaska (NPR-A). Lease sales must be conducted at least once a year over the 2009-2013 time period.

Pipeline Construction in the National Petroleum Reserve: The bill directs the Secretary of Transportation (in coordination with the Secretary of Interior) to facilitate environmentally friendly construction of an oil and gas pipeline from NPR-A to transportation and processing infrastructure on the Alaskan North Slope.

Alaska-U.S. Natural Gas Pipeline: The bill requires the President to coordinate with oil and gas companies, Federal agencies, Alaskan State officials, Canadian authorities, and other interested parties to facilitate construction of a natural gas pipeline from Alaska to U.S. markets.

Project Labor Agreement Requirements: The bill requires pipeline developers to negotiate Project Labor Agreements (PLAs) with unions for the production, maintenance, and construction of these pipelines; in general, PLAs are disfavored because they limit competition and increase costs.

Pipeline Maintenance: The bill requires pipeline operators transporting oil and gas from the Alaskan North Slope to annually certify their pipelines are efficiently maintained and operated, with civil penalties imposed on violators.

Alaskan Oil Export Ban: The bill reinstates the ban the export of Alaskan oil.

Issuance of New Leases (*"Use It or Lose It")*: The bill prohibits the Department of the Interior from issuing any new oil or gas leases on onshore or offshore federal lands unless the person (or entity) certifies that they are 1) "diligently developing" the existing lease areas to produce oil or natural gas (or already producing oil or natural gas); or 2) have given up all existing federal oil and natural gas leases. Within 180 days of enactment, the Secretary of the Interior must issue regulations defining what constitutes "diligently developing."

> ***Note: This provision is identical to the "Use It or Lose It" Bill (H.R. 6251) that failed to pass under suspension on July 10, 2008. Under this provision, a company could be penalized if it does not produce oil or gas from areas that do not actually have oil or gas in paying quantities, or from areas that may not be developed because required environmental studies, permits, and other procedural and construction factors are incomplete. It also appears to breach contract terms stipulated in existing leases.*

Failure to Comply: The bill imposes civil penalties on individuals (or entities) who fail to comply with these "Use It or Lose It" requirements. This penalty starts at $500 per violation for each day the violation continues and can increase to up to $10,000 per violation for each day it continues.

Federal Oil and Gas Royalties: The bill directs the Secretary of Interior to take all steps necessary to ensure prompt, transparent, and accurate royalty payments on all onshore and offshore oil and gas leases. The Secretary of Interior is also required to make legislative recommendations to Congress for how to improve accurate collection of Federal oil and gas royalties.

BACKGROUND

Alaskan Oil Exports: When the authorization for the construction of the Trans-Alaska Pipeline System was authorized in 1973, oil exports from the Alaska North Slope were banned. With the enactment of the Alaska Power Administration Asset Sale and Termination Act (P.L. 104-58) (which passed the House on November 8, 1995, by a vote of 289-134), Congress lifted this ban amidst a surplus of oil on the West Coast. Until May 2000, approximately 7% of this Alaskan oil was exported abroad, almost exclusively to South Korea, Japan, and China. According to the Congressional Research Service, however, no Alaskan crude oil is currently being exported, despite current Alaskan production rates of approximately 700,000 barrels of oil a day.

National Petroleum Reserve – Alaska: The NPR-A is located on the North Slope in Alaska, west of the Arctic National Wildlife Refuge (ANWR). NPR-A is owned by the Federal government and was designated as an energy reserve by President Harding in 1923. NPR-A covers 23.5 million acres of land, of which approximately 3.8 million acres is already leased for oil and gas production. The land is administered by the Department of the Interior.

The BLM has held lease sales for oil production on lands located in the northeast section of the NPR-A in 1999 and 2002 and in the northwest section in 2004 and 2006. On July 16, 2008, the Bureau of Land Management (BLM) announced plans to make additional lands in the northeast portion of the national Petroleum Reserve in Alaska (NPR-A) available for oil and gas leasing. This decision will make a major lease sale possible in the fall of 2008, and result in the production of potentially 8.4 billion barrels of oil and trillions of cubic feet of natural gas. (BLM decision)

While both NPR-A and ANWR have the ability to produce oil, differences exist between the production abilities of the two sites. Each site is estimated to have close to the same amount of oil, around 10.5 billion barrels. However, ANWR's oil is within a 1.5 million acre coastal plain, of which no more than 2,000 acres of surface would be allowed to be disturbed under ANWR bills that are under consideration. The NPR-A oil is believed to be in small concentrations in its 23 million acre area, and considerably more infrastructure would be needed in this vast, roadless area to tap all of its oil. ANWR boasts a production capability of 5,475 barrels of oil per acre, whereas the National Petroleum Reserve- Alaska has only 440 barrels per acre.

"USE IT OR LOSE IT": A lease is the first step in a multi-step process required by the Federal government for an oil company to drill for energy. Once a lease is secured, a comprehensive and expensive exploration process begins that can require years of mapping, testing, drilling and construction. According to data from the Department of the Interior, 97% of federal offshore areas and 94% of federal onshore areas are not leased for oil and gas production.

The Mineral Leasing Act requires energy companies to have a producing ground well within ten years or the lease will be lost. Prior to 1992, this lease term was five years, but was increased to ten years by a Democratic House with the Energy Policy Act of 1992. With regards to Federal offshore oil and gas

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leases, an oil company must produce energy within five to ten years, according to the Outer Continental Shelf Lands Act (P.L.103-426).

Federal onshore and offshore natural gas, oil, and mineral development is managed by the Bureau of Land Management (BLM) and the Mineral Management Service. Public lands containing oil and gas deposits may only be leased to U.S. citizens, corporations organized under federal or State law, and municipalities. Leases are conditioned upon payment to the federal government of at least 12.5% of the value of oil or gas that is removed or sold from leased land. However, the Secretary of the Interior may waive or reduce such royalties under certain circumstances.

According to a June 23, 2008, letter from the independent American Association of Petroleum to Speaker Pelosi: "The process of leasing, evaluating, drilling, and developing an oil or natural gas field typically takes five to ten years. Some fields come online sooner. Others are delayed by permitting or regulatory delays or constraints in the availability of data acquisition and drilling equipment and crews… Oil and natural gas exploration is not simple and it is not easy. It requires geological ingenuity, advanced technologies, and the time to do the job right. It also requires access to areas where exploration ideas can be tested – the greater the number of areas available for exploration, the higher the chance of finding oil and natural gas traps."

ADDITIONAL INFORMATION

Department of Interior letter regarding the oil and gas report issued by House Committee on Natural Resources Democrats: "The report does not reference specific locations for much of the data and therefore we cannot ascertain where each of the numbers was derived. It appears the report took raw data, some of which can be found on the Department websites, and then used various formulas to reach certain conclusions. The report does not disclose the assumptions or formulas used. The views contained in the report are based on a misunderstanding of the very lengthy regulatory process." (DOI Letter, 6/25/08)

GOP Conference: Democrat "Use-It-or-Lose-It" Claims Debunked by Expert, Independent Voices

COST

The Congressional Budget Office did not have a score available for H.R. 6515 as of July 16, 2008.

STAFF CONTACT

For questions or further information contact the Conference Policy Shop at (202) 226-2302.